

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

Retail Access Optimization Initiative

Docket No. N2011-1

**RESPONSE OF PUBLIC REPRESENTATIVE WITNESS KLINGENBERG TO UNITED
STATES POSTAL SERVICE INTERROGATORIES USPS/PR-T2-1-34**

(October 11, 2011)

The Public Representative hereby provides responses of witness Klingenberg to the above-listed interrogatories of the United States Postal Service dated October 3, 2011. The interrogatories are stated verbatim and followed by the response.¹

Respectfully Submitted,

/s/ Tracy N. Ferguson
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¹ Responses to interrogatories USPS/PR-T2-1 through T2-3 were filed as Response of Public Representative Witness Klingenberg to United States Postal Service Interrogatories USPS/PR-T2-1-3, October 4, 2011. They are duplicated in their entirety, herein, for convenience.

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USPS/PR-T2-1. Please provide a version of your testimony that comports with the Commission's filing requirements, specifically including line numbers on each page.

Response. As stated in the errata, a non-finalized version of the testimony was inadvertently filed. I apologize for the unfortunate oversight.

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USPS/PR-T2-2. Your testimony references two library references upon which it relies, PR-LR-3 and PR-LR-NP1 (PR-T-2 at 2). Please describe each, explaining what it contains, how you use it and when the latter will be (or was) filed.

Response. As stated in the errata, a non-finalized version of the testimony was inadvertently filed. I apologize for the unfortunate oversight. I intended to file a public version of my library reference that removed all non-public data. Unfortunately, due to the requirement of facility identification, this task was not possible.

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USPS/PR-T2-3. Please explain all of the analytical steps you took, from input data sources, assumptions, data limitations, all processing steps, output data, as the Commission's Rule 31(k) (39 C.F.R. § 3001.31(k)) requires. This documentation should include all data upon which you rely, including data obtained from ESRI, so that your analyses can readily be replicated. Please document each of your tables plus separate results reported in the text.

- a. Did you attempt alternative analyses that you ultimately chose not to include in your testimony? If not, why not? If so, please provide a general description of what those efforts attempted to do and why they were ultimately abandoned.

Response. As stated in the PR-T-2 and the "PR-LR-NP2 Preface," I relied upon multiple USPS NonPublic Library References and census data obtained from ESRI (see line page 3 line 4 and page 12 lines 5-6 of PR-T-2). All of the tables contained in my testimony are included in PR-LR-NP2. Furthermore, all of my files are linked, and where SAS was used the SAS code has been provided. If any party, including the Postal Service, has difficulty replicating my analysis, I would be happy to hold a technical conference to explain the calculations.

- (a) I attempted many analyses that were not ultimately included in my testimony as the required data was not available, unfortunately.

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USPS/PR-T2-4. Please confirm that you and others representing the Public Representative in this case worked together to analyze the Postal Service direct case and develop an overall strategy for participating in this docket. If confirmed, please explain the person(s) with whom you collaborated, excluding counsel. If you do not confirm, please explain what approach was taken and who was involved for what purpose and effect.

Response. Confirmed. Please see Page 2, line 22-23.

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USPS/PR-T2-5. What was your general understanding of your part in the Public Representative's overall participation in this case (please do not answer in terms of what counsel may have advised)? Has your understanding changed any during the conduct of the case? Please explain.

Response. The Public Representative asked me to evaluate the potential impact of the RAOI proposal. My understanding of the impact of the proposal has changed as the Postal Service has provided information to allow the proposal to be evaluated.

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USPS/PR-T2-6. Graphic 1, a map of the United States with all Postal Service offices, is overtly misleading because the RAOI offices are dark solid red with black outline and the open offices are very light blue with blue outline; one consequence is that the reds are always on top of the blues. Please produce a new variant of Graphic 1 that uses, and shows in its legend, three colors for the two underlying data types plus the intersection.

Response. The Public Representative disagrees with the Postal Service's characterization of Graphic 1 and objects to the request to re-construct the graphic, as to do so is unduly burdensome and the Postal Service has dominion and control over the information it is seeking to have re-illustrated. To take from the Postal Service's response to DBP/USPS-36, the need to reconfigure the graphic is unnecessary as reasonable readers of Mr. Klingenberg's testimony and observers of Graphic 1 can see color distinctions and overlaps, and understand that they represent the different status of the offices

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USPS/PR-T2-7. Please confirm that you describe the purpose of your testimony as, “to provide analysis of the Postal Service’s retail network and the Docket No. 2011-1 Retail Access Optimization Initiative.”

- a. Please confirm that your purpose statement is accurately quoted.
- b. What do you understand is the Postal Service’s purpose in RAOI, and to any extent its “four components” embody discrete purposes (please provide citations to support your response):
 - i. Filing its Request in this docket?
 - ii. RAOI?
- c. Does your analysis of the Postal Service retail network intend to serve any specific goal?
- d. Does your analysis of RAOI serve any more specific goal?
- e. Please confirm that the last sentence of your first paragraph in section II, Purpose and Scope of Testimony, appears to offer general conclusions you reach, “Based on the selection criteria used by the Postal Service and the analysis provided in this testimony, it appears the ‘low workload’ Post Offices currently operate at deficit and provide service to rural Americans.”
 - i. Use of the words “appears to” denotes some equivocation as to the strength of your conclusions; please explain the extent of your equivocation including any alternative to use of “appears to” that you considered and ultimately chose not to use.
 - ii. What is the tie between postal selection criteria and your analysis that enables you to conclude what “appears to” exist.
 - iii. How do you define “rural Americans”? Please explain and address how you arrived at your definition, what alternative definitions you considered but chose not to use, and any larger significance to your use of the term.

Response.

- a)** Confirmed that the purpose statement is accurately quoted

b) The Postal Service's Request² at page 5 lines 12-13 states that "for purposes of the RAO Initiative, the following categories of postal retail facilities have been identified for discontinuance review." According to the Request the purpose of the RAOI is to "examine whether to continue providing retail and other services and products at approximately 3650 of the more than 32,000 Post Offices, stations and branches in its retail network." The Postal Service's goals and purpose are further explained on pages 3 and 4 of the Request. Regarding the components, in response to APWU/USPS-T1-12, USPS-T1 stated that "It was determined that RAO should include at least as many facilities as SBOC and that the number of total facilities to be analyzed be kept at a "manageable" level. At the same time, consideration was given to the fact that discontinuance review adds to the existing workload of field personnel and that there are finite limits to how much additional work can be undertaken at any given time. Other candidate types could have been created. Different criteria for existing types could have been utilized. Limiting the candidate pool to Type 1 facilities or some other homogenous type would have defeated the goal of examining a diverse pool of facilities simultaneously."

i) According to the Postal Service's Request at 1 line 14, the filing is required by 39 U.S.C. § 3661

ii) This question is unclear. It is my current understanding that the purpose of RAOI is to evaluate whether the Postal Service should close offices that meet the RAOI criteria. I believe the Postal Service has not been clearly differentiated between the RAOI criteria and the overall discontinuance process. It is my understanding that the RAOI criteria identify what offices are going to be studied for closure. Once the facilities are selected for study, the PO-101 handbook will be used by local officials to pursue a discontinuance study. One can read the statements listed in part b of this response to understand the purpose of RAOI to either "identify" or "examine" sites for closure. Generally speaking, it is my understanding that the primary purpose of the RAOI is to "identify" and the primary purpose of the new and improved PO 101 handbook is to "examine," or study.

c) The goal of my testimony is to facilitate an understanding of the potential impact of the RAOI, both on the Postal Service and the population that it serves.

² Request of the United States Postal Service for an Advisory Opinion on Changes in the Nature of Postal Services (Request).

d) See response to (c)

e) Confirmed

i) As discussed in my testimony, complete and comprehensive data is, unfortunately, not available. If more detailed and accurate data was available, I would be able to remove my equivocation. See PR-T2 at 3, Appendix 1.

ii) As discussed in my testimony, 99 percent of the RAOI “low workload” Post Offices operate at a deficit and 99 percent of the RAOI “low workload” Post Offices that can be linked to census blocks are serve rural census blocks. See PR-T2 Table 2 and Table 11.

iii) See footnote 15, page 15.

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USPS/PR-T2-8. This question stems from the second sentence of the second paragraph in section II of your testimony, which reads, “[Your testimony] provides a quantitative analysis of the Postal Service’s retail network and germane proposal.” In particular, the focus is on your understanding, for purposes of your testimony, of the relationship between the Postal Service retail network and its RAOI proposal. Please explain your understanding of that relationship.

Response. It is my understanding that the Postal Service has brought the Docket No. N2011-1 proposal to the Commission in order to “evaluate certain categories of facilities within the postal retail network to determine whether their numbers can be reduced while the Postal Service still maintain[s] postal facilities of such character and in such locations, that postal patrons throughout the Nation will, consistent with reasonable economies of postal operations, have ready access to essential postal services.” Request at 3-4. In order to evaluate how a change will impact a network, one must first understand the network, and then measure the change in the network. For example, to understand how (A-B) is different than (A), both A and B must be known quantities. In this hypothetical, A is the retail network, and B is the network of RAOI offices.

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USPS/PR-T2-9. The second paragraph in section II of your testimony says the following, “[A] discussion of alternative tactics that the Postal Service could employ to optimize retail access is provided.” Is it your understanding that the Postal Service has requested an advisory opinion about the full range of plausible and empirical optimization strategies that could be applied to optimize a retail network?

- a. If so, please cite to the genesis of your understanding in materials filed by the Postal Service.
- b. If not, please state your understanding of what the Postal Service has requested and cite to materials filed by the Postal Service.
- c. Regardless of your responses to parts (a) and (b), would you agree that the range of optimization possibilities not addressed by the Postal Service Request is broad? Please explain your response.
- d. What, if any, limits on the scope of the Postal Service Request are you able to identify?
- e. Is it your understanding that RAOI itself encompasses discontinuance studies on respective nominated facilities? Please explain your answer citing to materials filed by the Postal Service to support your response.
- f. What is your understanding of how many offices the Postal Service sought to include within RAOI and why?
- g. What experience in the business world do you have that relates to optimizing a large company’s retail network?
- i. Did such work examine optimization of an entire network? Please explain your response.
- ii. Did such work examine a specific optimization strategy? Please explain your response.
- ii. Is it your understanding that you have dealt with retail network optimization strategies as an academic exercise? Please explain your response, its relationship—if any—to related business experience, and more generally how your the Postal Service how it should undertake optimization of its retail network.

Response. My understanding of the purpose of the Postal Services proposal is explained in the response to USPS/PR-T2-7. It is my understanding that businesses often evaluate many alternatives when designing and implementing major business process re-designs. See <http://ducati.doc.ntu.ac.uk/uksim/journal/Vol-2/No-2-Hlupic%20Special/paper-1%20Ed%20Hlupic/Hlupic.pdf>. Further, the “alternative tactics” I discuss are not new and not developed in my testimony.

a) The materials filed by the Postal Service in this docket are devoid of any references to alternative optimization modeling techniques considered before filing the RAOI. In response to CSRL/USPS-9, which asked if the Postal Service had considered alternatives to RAOI that could produce greater cost savings, the Postal Service stated that “the Postal Service did not establish a financial savings target and then determine that the RAO Initiative would be the chosen vehicle for pursuing that target.” Further, one of the “alternative tactics” I discuss, the OIG-Yezer model, was discussed by Postal Service witness Granholm, who stated “I think we have to have a review at the conclusion of this process on whether it was successful or not, and I would imagine that the Commission will at least through the initial process give us advice on that as well. I think some conversations have taken place dealing with the OIG, and their use of the Dr. Yezer model. We are investigating using those models as well going in the future. That is a way that we can look at the effectiveness of the current process as well moving forward using some modeling to see what the outcome of that result would be.” Transcript Vol. 1 at 620. On page 549 of transcript volume 1, concerning the OIG-Yezer model, witness Boldt stated “I think that’s certainly something that perhaps the Postal Service should look at, particularly in light of the OIG report.” My testimony agrees with the conclusions of witnesses Boldt and Granholm, and is informed by their responses. I am suggesting that **before** implementing a nationwide change in service, these alternatives should be considered.

b) See USPS/PR-T2-7

c) I agree that the range of optimization possibilities not discussed by the Postal Service is broad. I have not found any details on how the Postal Service defines as optimization in this docket.

d) I have been able to identify 4 selection criteria, as discussed on page 2 of my testimony. Further scope limitations are found in witness Boldt's response to APWU/USPS-T1-12, which defines 3650 as "manageable."

e) The Request at page 5 line 12-13 states that "for purposes of the RAO Initiative, the following categories of postal retail facilities have been identified for discontinuance review." Further, at page 6 lines 8-10 the Request states "comprising a total of 3652 facilities, all four categories of RAO Initiative discontinuance review candidates are described in greater detail in USPS-T-1." I understand this to mean that RAOI identifies the candidates for review, but as discussed in response to USPS/PR-T2-7, there is a lack of definitive clarity in the wording used by the Postal Service at this juncture. I am aware that the discontinuance studies are performed by local officials. Insofar as the RAOI process encompasses only the actions of Postal Service headquarters officials, the RAOI process does not include the actual discontinuance studies. If the RAOI process only encompasses the actions of Postal Service headquarters employees, the RAOI process includes the identification of facilities for discontinuance study and the final headquarters determination for each closure following the completion of the discontinuance study at the local level.

f) See response to APWU/USPS-T1-12, and transcript vol. 1 at pages 314, 495, 532.

g) None

i) N/A

ii) N/A

iii) I do not consider the potential reduction of monopoly product access for up to 16.2 million people to be an academic exercise. The remainder of the question is unclear.

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USPS/PR-T2-10. You begin the second paragraph on page 3 of your testimony with the word “unfortunately.” Please explain the judgment underlying this characterization, the extent to which it relies upon personal, professional, empirical, paradigmatic, research design, educational, experiential views and the extent to which such judgment is yours, that of the Public Representative, your agency, your fellow Public Representative witnesses or other viewpoints. Then please explain why and how the sum of such inputs allows you to substitute your judgment for that of the senior postal officials who fashioned the Request and its supporting data.

Response. Page 3 of PR-T2 reads “Unfortunately, the Postal Service, as stated by witness USPS-T-1³, did not review cost, demographic, or operational information before bringing the RAOI proposal to the Commission. Because the Postal Service has not used this information in its Direct Testimony, the information available in this docket does not contain comprehensive details for every Post Office under review as part of the RAOI process.”

Had the Postal Service had reviewed cost, demographic, and operational details before bringing the RAOI proposal to the Commission, I am confident the Postal Service would have presented the Commission with more complete, comprehensive and accurate data. My personal, professional, empirical, paradigmatic, research design, educational, experiential views have all lead me to the conclusion that data are useful in determining optimal designs and outcomes. From a professional perspective, it is unfortunate that I had to qualify my testimony with “appears to,” as referenced in USPS/PR-T2-7, because the Postal Service has been unable to provide complete and comprehensive data concerning the RAOI facilities.

³Docket No. N2011-1 Transcript #1 at 496.

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USPS/PR-T2-11. The first sentence of section III in your testimony posits one hypothetical means of determining whether RAOI “will have a substantially nationwide effect.” What precedent, whether of legal or analytical import, supports use of the particular test you align your testimony behind? Please explain in terms that allow the reader to understand the significance for this case and beyond of the specific measure you propose in both historic and possible future terms.

Response. There is no test for “substantial nationwide effect” in my testimony. My testimony is intended to facilitate a greater understanding of the Postal Service’s proposal, which requires an understanding of the Postal Service’s nationwide network.

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USPS/PR-T2-12. Where in the materials filed by the Postal Service in this docket does it claim that any purpose or the scope of RAOI reaches to include nationwide costs? Please explain how you came to conclude that is what PRC Docket N2011-1 is about.

Response. The Postal Service provided nationwide operating costs and operational details in response to multiple interrogatories, which I have relied upon in my testimony.

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USPS/PR-T2-13.

- a. Where does the Postal Service introduce or explain RAOI as an exercise in nationwide optimization of the retail network?
- b. Notwithstanding any response to part (a), is it your understanding that the Postal Service is under some obligation to undertake optimization of the retail network nationwide? Must it also use tools of the type you attempt to utilize? Please explain your understanding.

Response.

- a)** On page 2 of the Request, the Postal Service states “until definitive information to the contrary emerges, the Postal Service concedes the possibility that the scope of the changes in service resulting from this Initiative could be at least “substantially nationwide,” within the meaning of 39 U.S.C. § 3661(b).” On page 3 of the Request, the Postal Service states “the objective of the RAO Initiative is to evaluate certain categories of facilities within the postal retail network.” Line 17-18 of page 1 of the Request states that the title of the Initiative is “Retail Optimization Access Initiative.” I understand that the Initiative is a “Nationwide” “Optimization” of the “Retail” “Network.”
- b)** The Postal Service is under no obligation that I am aware of to reduce retail access to a monopoly product that only the Postal Service can provide. The Postal Service is under no obligation to use the vast amounts of information at its disposal to improve its retail network, whether the tools are of the type I attempt to utilize or not.

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USPS/PR-T2-14. Looking again at the first sentence of section III in your testimony, is it your understanding that the Postal Service made an attempt to determine “how ‘optimal’ the RAOI is”? If so, please explain the genesis of your understanding. If not, please explain how you arrived at the conclusion this would be a goal of your testimony. How, if at all, do you believe that your testimony succeeds in meeting that goal?

Response. I am unaware of any information provided by the Postal Service in this docket that attempts to quantify or determine how optimal the RAOI is. On September 21 and October 7, 2011, the Postal Service has provided updated lists of RAOI candidate facilities. Given that I was unable to do an analysis of every RAOI facility due to lack of information, and the number and location of RAOI facilities is a moving target, I do not think that it is possible to determine how optimal RAOI is at this time. It is my understanding that many persons who currently reside near facilities slated for discontinuance studies and possible closure do not consider the closure of their local office beneficial to them, which is one way of measuring the impact and optimality of a change. This viewpoint is informed by the Gallup poll referred to on page 17 of my testimony.

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USPS/PR-T2-15. Please confirm that in the first two sentences of section III in your testimony, you substitute for RAOI's own context the need to put it into a national context you define as having three components: 1) the number / location of Post Offices, 2) revenue generated by each office, and 3) cost of retail service in each office. Please explain any lack of full confirmation. a. Please explain how you came up with these three components and how, in your understanding, they encompass the entire retail network's necessary components.

b. Please confirm that a major theme of USPS-T-1 is the growth in use of alternate means of access to retail services. Please explain any lack of full confirmation.

c. To any extent that postal customers access retail service via alternate access options, how, if at all, are those costs reflected by change in your three components? Please explain so that a reader not versed in postal operations or Postal Service regulation can understand.

Response. Not confirmed. According to <http://dictionary.reference.com/browse/context>, context can mean "the set of circumstances or facts that surround a particular event." I did not "substitute" the context of the RAOI. I discussed an important aspect of any analysis of change, the denominator. See USPS/PR-8 which discusses how the change from "A" to "A-B" is calculated. If "B" is the RAOI, then the facts regarding the current retail network "A", is the context of that change. Section III attempts to define that context, regardless of "RAOI's own context."

a) I do not believe that those three components encompass all and every necessary components of the entire retail network. The location (cumulatively the number of locations and the distance between them), operating cost, and revenue generated by each post office in the retail network are selected important parameters required for understanding the current retail network.

b) USPS-T1 table 2 shows that over the past 6 years the percentage of retail revenue generated by alternate access channels has increased by roughly 13 percent, which is an important fact.

c) Unfortunately, information regarding alternative access sites has not been provided by the Postal Service, and thus it could not be included in my analysis. I agree that including this information would represent an improvement to my analysis, and if it is provided on the record I will submit my analysis with the additional information.

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USPS/PR-T2-16. What is your understanding of whether, or to what extent, the network of postal retail facilities has any excess capacity? If not, please explain the foundation for your understanding. If so, where is it located?

Response. I have not analyzed the retail network for excess capacity.

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USPS/PR-T2-17. Footnote 4 in your testimony references a 2008 GAO study's report that found data reliability problems in the Postal Service's Facilities Database (FDB); the footnote follows a sentence in which you note having relied upon latitude and longitude data from the FDB. Did the GAO study report errors in facility locations reported as latitude and longitude in FDB? If so, what was the nature of those problems? If not, why did you cite that GAO study at that particular point in your testimony?

- a. What do you know today about the accuracy of FDB data?
- b. Is it your understanding that FDB is relied upon by the Postal Service to support daily operations? If so, what do you understand it accomplishes for the Postal Service? If not, what does the Postal Service use FDB for?
- c. Did you attempt to verify the latitude/longitude accuracy of any specific facility? Why or why not? If an analyst uses data from a source known to have data quality problems, what, if any, obligation does an analyst have to evaluate whether any such problems contaminate the data used?
- d. What is your professional evaluation today of the quality of the data you used from FDB? What, if anything, does this mean for the quality of your own results?

Response. The specific findings of the GAO report were (from page 17):

- 145 facility entries were exact duplicates of another facility entry (all data fields were the same);
- 1,931 facility entries had multiple retail facilities listed at the same address (e.g., a main post office and a station were listed with the same address);
- 1,288 facility entries had different amounts of square footage listed for the facility;
- 892 facility entries had conflicting information on whether the facility is owned or leased;
- 1,216 facility entries had conflicting data on the amount of the facility's rent; and
- 509 facility entries listed as having staffed more retail windows than reportedly exist at the facility.

I cited the GAO report at that point in my testimony because it was the first juncture which I had mentioned that specific library reference.

a) I understand it to be a generally reliable database with specific problems. The file "FDB CMN Core.xls" one of the files generated using the FDB provided in this docket, there are specific data reliability issues. For example 293 facilities have a recorded address of generic "Main Street," 1922 do not have a recorded latitude or longitude, and 526 do not have a recorded finance number.

b) It is my understanding that the FDB can be used for management purposes, but it is not relied upon heavily for daily operations. This is informed by the Technical Conference held by the Postal Service in this docket, for which no transcript is available.

c) I looked at the latitude/longitude data for facilities in Kansas. I found multiple redundant facilities and many facilities with potentially erroneous data. Fortunately, the Postal Service provided a library reference with other latitude longitude data to use. I believe analysts have an obligation to pursue data accuracy checks when determining how accurate conclusory statements regarding analysis performed using suspect data are. This is why I, unfortunately, had to include a qualifier concerning my conclusory statements, given my lack of certainty regarding the accuracy of the data provided by the Postal Service.

d) Most of the data in the FDB appears accurate, the data concerning window hours and employees working have at least the type of values one would expect, where information is provided. Without a secondary source that can be used to evaluate the accuracy of the data most of the FDB data fields, I am unable to further evaluate the accuracy of much of FDB data. There are instances where comparable data have been provided. As an example, I compared the Latitude and Longitude data provided in USPS-LR-NP10 for 31320 Post Offices with the Latitude and Longitude data provided for 30531 Post Offices in "FDB CMN Core.xls" That analysis showed that the latitude and longitude of 5910 Post offices in USPS-LR-NP10 could not be matched to any Post Offices "FDB CMN Core.xls" by finance number. That analysis showed that 16.7 percent of the "FDB CMN Core.xls" offices could not be matched to offices in USPS-LR-NP10. I chose to use the qualifier "appears to" regarding the conclusory statements contained in my testimony due to these types of data inaccuracies. Furthermore, I focused the analysis on specific portions of the Postal Service's proposal, specifically "low workload" offices, to focus on the offices for which

reasonably reliable data. I did not develop conclusory statements regarding stations and branches because I am unable to isolate operating cost, operating revenue, or general operating information with the data provided by the Postal Service. I believe that by focusing on the post offices which I am at least able to identify a unique finance number that can be matched to other Postal Service library references I have avoided using much of the data that is verifiably inaccurate.

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USPS/PR-T2-18. In the second paragraph in section III in your testimony, you reference “offices that will remain open.” How were you able to determine which offices will remain open?

- a. Is it your understanding that all offices identified in RAOI will be closed? Regardless if you answer yes, no, or something else, what is the source (or sources) for your understanding?
- b. Is it your understanding today that all offices identified by RAOI are still expected to be closed? If not, how did you learn otherwise?
- c. USPS-T-1 refers to a discontinuance process that relies upon Postal Service Handbook PO-101. You instead refer to “the RAOI discontinuation process” (PR-T-2 at 3); how does that differ from the PO-101 discontinuance process?
- d. What is your understanding of the relationship between RAOI and discontinuance of respective postal retail facilities?
- e. How many offices in Delaware will close?

Response. I understand that offices not identified for discontinuance study as part of the RAOI procedures will remain open.

a) It is my understanding that not all offices identified by the RAOI process will be closed. As of October 7, 2011, the Postal Service provided notice that 125 offices have been removed from consideration.

b) It is my understanding that not all offices identified by the RAOI process will be closed. As of October 7, 2011, the Postal Service provided notice that 125 offices have been removed from consideration.

c) This statement, both revised and unrevised, generally refers to offices that will undergo discontinuance studies pursuant to their identification for study in the context of a top-down selection process.

d) See USPS/PR-T2-7

e) It appears no offices in Delaware have been identified by the RAOI selection criteria.

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USPS/PR-T2-19. From pages 4-5 of your testimony, “The total revenue from these [30,466] [P]ost [O]ffices was \$65.7 billion in FY2010.” Is it your understanding that 90 percent of the Postal Service’s total revenue in FY2010 was earned by all these Post Offices?

- a. What is the data source for this assertion?
- b. What gives rise to the remainder of Postal Service revenue?
- c. If a major mailer enters a single mailing at 200 major plants around the domestic service area, which Post Office gets credit for the mailing?
- d. What is your understanding of how such a mailing is paid for?
- e. Do you understand what Plant-Verified Drop Shipment (PVDS) entails (a postal employee verifies the number and postage of all pieces at the mailer’s plant, after which the mailer transports the mail for physical entry at various regional or national plants)?
 - i. To which Post Office does the revenue from a PVDS get credited?
 - ii. What is the foundation for your understanding of this question and answer?
- f. Please confirm that your testimony then goes on to contrast the \$65.7 billion revenue at these 30,466 Post Offices with their over \$34 billion operating costs.
 - i. Where do the cost of operating plants get accounted for?
 - ii. Where does the cost of transporting mail from these 200 or so plants to carrier units for delivery get accounted for?
 - iii. Please confirm that if you were to show the Walk-In Revenue as the Postal Service defined that term to nominate RAOI offices the total revenue of that group of offices would be \$42.4 million.
 - iv. Please confirm that if you were to calculate retail operating costs corresponding to those same RAOI offices that total would be \$201.1 million.
 - v. Please confirm that among RAOI offices nominated based, in part, on Walk-In Revenue, the average such revenue is \$16,000.

Response. The total operating revenue of the Postal Service in FY 2010 was \$67.1 billion. It is my understanding that the \$65.7 billion in operating revenue for these 30,466 Post Offices was 97.9% of the Postal Service’s total revenue in FY 2010.

a) The data source for the operating revenue of the 30,466 Post Office for which the Postal Service has provided data is USPS-LR-NP3. The data source for the Postal Service's FY 2010 operating revenue is the ACR-USPS-LR-FY10-1.

b) I can speculate to the sources of the remainder of the revenue, but since the data provided is a total operating revenue for given Post Offices, not broken down by product, I am unable to develop further analysis of revenue unaccounted for. Potential sources include funds allocated by Congress and Post Offices not included in the USPS-LR-NP3.

c) It is my understanding that the payment process for the Postal Service is quite complex, and I am not an expert in the process, having never entered a bulk drop shipped mailing. I am generally familiar with the current permit system, which requires mailers to have a unique permit account for each facility that they enter mail at. Under that system, a mailer entering mail at 200 locations would pay for the mailing at each of the 200 locations. It is my understanding that "PVDS allows for the verification of mail and postage payment at a U.S. Postal Service facility (origin facility) and then the mailer or its representative to transport the mail (drop ship) to another Postal Service facility (destination facility) to obtain postage discounts." http://www.uspsoidg.gov/foia_files/MS-AR-10-001.pdf at 1. This would allow for the mailer to pay for all mailings a 1 location. According to the OIG report at page 6, a comparative analysis of mailing paid for utilizing the variety of payment systems is not currently available.

d) "A mailer must have sufficient funds for postage payment on deposit at the post office where mailings are verified, or in a CAPS account, for each mailing at the time it is released for shipment to the destination entry postal facility." page 1 part II subpart D https://ribbs.usps.gov/dsms/documents/tech_guides/ProgramStandards.pdf. Thus, it is my understanding the originating facility responsible for verifying the mailing will be credited for a PVDS verified mailing.

e) I understand basic concept of the process. I do not have first-hand knowledge of the process.

i) Based on the material I quote above, the originating facility responsible for verifying the mailing will be credited for a PVDS verified mailing..

ii) the material I quote above.

f) I contrast the accuracy and completeness of the revenue data provided, which accounts for 98% of the Postal Service's total revenue, with the cost data provided, which accounts for roughly 50% of the Postal Service's total operating costs.

i) It appears that, combining data from USPS-LR-NP3 with data from USPS-LR-NP6 and USPS-LR-NP13, some of the facilities included in the 30,466 Post Offices for which operating cost and revenue data for FY 2010 were provided are plants. Without a complete list of plants I have been unable to determine if all Postal Service plants are included in the NP3 list. The operating cost for many of the facilities is over \$100 million dollars for FY 10. It is my understanding that the Postal Service does not spend \$100-300 million operating only retail counters at specific sites.

ii) Interrogatory PR/USPS-15 requested information regarding NP3 operating costs by cost segment. The Postal Service stated that this breakdown of cost was unavailable, because "all costs in these offices are categorized as LDC-47, service workload CAG H to L offices." Transcript volume 1 at 530. Witness Boldt, after stating that there are, in fact, CAG A-G offices for which cost data are provided in USPS-LR-NP3, stated on page 531 of transcript 1 that he would "want to take another close look at this." No further information has been provided that would allow me to answer this question.

iii) I confirm that Table 2 on page 7 of my testimony shows that the Walk in Revenue of the 2646 "low workload" offices for which operating cost, revenue data, and operating information were provided was \$42.4 million in FY 2010.

iv) Table 2 shows that the operating cost of the 2646 "low workload" offices that can be identified using finance numbers was \$209.1 million in FY 2010. It is possible that the Postal Service, with more complete information than has been provided to me, has been able to discern the operating cost for the remainder of the "low workload" offices, and that the operating cost of all 2825 "low workload" offices was \$201.1 million in FY 2010.

v) Table 2 shows that the total walk in revenue of the 2646 "low workload" offices that can be identified using finance numbers was \$42.4 million in FY 2010. \$42,396,198 divided by 2646 is \$16,022.75.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO INTERROGATORY OF THE PUBLIC REPRESENTATIVE**

USPS/PR-T2-20. Your testimony (at 5) asserts, “The retail network is composed of the Post Offices, the Post Office Boxes located in Post Offices, and the Postal Service employees that provide retail counter service at those Post Offices.” What is the foundation for your understanding that the elements you identify comprise the “retail network”?

- a. What is the relationship between the retail network and the delivery network?
- b. Does Post Office Box service entail any form of delivery? Is it part of the delivery network or the retail network. Please explain your response and cite appropriate source materials.
- c. What is your understanding of the relationship between employees who work retail counters and those putting mail in P.O. Boxes?
- d. What is your understanding of the relationship between employees who work retail counters and those moving mail from trucks to carrier operations?
- e. In the comparison of costs and revenues you make, where do the costs of the various employee activities addressed in this question end up?

Response. I am unaware of a formal, Postal Service sponsored definition of the retail network.

- a)** The retail network and the delivery network have many overlaps, from employee staffing to co-location, detailed in the OIG report RARC-WP-11-009.
- b)** According to USPS-FY10-19, P.O. box volumes are considered “non-delivered” volume, at least for the purpose of calculating delivery costs.
- c)** I am not an expert on Postal Service union rules. It is my understanding the a clerk can both put mail into P.O. boxes and work at the retail counter.
- d)** I am not an expert on Postal Service union rules. It is my understanding that moving the mail from trucks to carrier operations is performed by Mailhandlers.
- e)** It is my understanding the clerks or postmasters will put mail into a P.O Box.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO INTERROGATORY OF THE PUBLIC REPRESENTATIVE**

USPS/PR-T2-21. Later in that same paragraph on page 5 you state, “The Postal Service was unable to provide information on operating costs that isolates window service costs from mail processing and delivery costs.” What is your understanding of why that is?

- a. What is your understanding of postal data systems? Please identify those with which you are familiar and briefly state what purpose(s) they serve.
- b. What, if anything, do you know about (In-Office Cost System (IOCS)? What does it provide by way of costing information? How are its data used?
- c. Later on that page you refer to FY2010 Cost Segments and Components; please explain briefly your understanding of what it contains.
 - i. How, if at all, do you understand that report is created?
 - ii. Does it use data from any particular data systems that you are at least modestly familiar with? Which?
 - iii. What, if any, crosswalk between Cost Segments and Components and your construct on page 5 of the retail network and its components? Please explain completely.

Response. Interrogatory PR/USPS-15 requested information regarding NP3 operating costs by cost segment. The Postal Service stated that this breakdown of cost was unavailable, because “all costs in these offices are categorized as LDC-47, service workload CAG H to L offices.” Transcript volume 1 at 530. Witness Boldt, after stating that there are, in fact, CAG A-G offices for which cost data are provided in USPS-LR-NP3, stated on page 531 of transcript 1 that he would “want to take another close look at this.” No further information has been provided that would allow me to answer this question.

a) I am familiar with the following data systems. For an explanation of the data systems, please refer to USPS-FY10-09, the ACR roadmap, or PRC Order No. 203.

IOCS

MODS

CCCS

RCCS

DOIS

FLASH

FAST

IMB

ODIS-RPW

HAT

CSDCS

General Ledger of Accounts

Special Studies –Letter, Flat, Parcel Cost Models

b) From USPS-FY10-NP21, “The In-Office Cost System (IOCS) is a continuous, ongoing probability sample of work time to estimate costs of various activities performed by clerks, mail handlers, city carriers, and supervisors. Although the Postal Accounting system tracks costs for various categories of employees, it does not identify labor costs by product because employees are simultaneously processing more than one product in most operations. The IOCS is designed to supplement the accounting system data by sampling employees at randomly selected points in time throughout the year. When an employee is sampled, the activity of the employee at that point in time is recorded directly into a laptop computer using the IOCS Computerized On-Site Data Entry System (IOCS-CODES) software. These sample data, in combination with data from the accounting system and the MODS system, are used to produce detailed estimates of attributable costs for various activities.”

c) From USPS-FY10-9, the “ACR Roadmap,” “USPS-FY10-2 is an output of the FY 2010 Cost and Revenue Analysis (CRA) Model that shows product attributable costs for 18 cost segments, including Postmasters, Supervisors, Clerks and Mail Handlers, In-Office City Carrier Activities, City Carrier and Rural Carrier Street Costs, and Purchased Transportation.”

i) The preface to USPS-FY10-2 states “The FY 2010 Public Cost Segments and Components Report is an output of the FY 2010 CRA Model documented in USPS-FY10-31. As such, it utilizes as input the FY 2010 “B” workpapers contained in USPS-FY10-32; variabilities and distribution keys developed in USPS-FY10-7; equipment and facility-related costs developed in USPS-FY10-8; In-Office Cost System-derived distribution keys

documented in USPS-FY10-37; and expenses from the FY 2010 general ledger as developed in USPS-FY10-5.”

ii) See response to part a.

iii) Tab “CSC Retail Network” of PR-LR-NP2 contains table 1 linked to the FY 10 CSC.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO INTERROGATORY OF THE PUBLIC REPRESENTATIVE**

USPS/PR-T2-22. On page 5 of your testimony, you contrast two figures for the cost of operating the retail network: “over \$34 billion” and “\$5.8 billion”. Is it your contention that they measure the same thing? Please explain your understanding of the relationship between these numbers. What should each be used for?

- a. Please explain how you determined which “cost segments and components **related to** the retail network.” [Emphasis added.]
- b. What definition of “related to” did you use and how did you arrive at that conclusion?

Response. \$34 billion is the total operating costs of 30,466 facilities in FY10. This cost, as detailed in USPS/PR-T2-19, includes costs for operating mail processing plants and costs of operating portions of delivery network co-located with retail units. Given the Postal Service response to PR/USPS-15, I was unable to discern any further meaning of the \$34 billion operating cost, other than that it is much more of the total cost of operating the Postal Service’s retail than one would expect, given that the cost of mail processing, city delivery, and rural delivery was \$34 billion in FY10, per the CSC. The \$5.8 billion and \$4.5 billion dollar estimates are intended to measure only the cost of operating the retail network, removing mail processing and delivery costs.

a) As discussed in response to USPS/PR-20, I defined the parameters of the retail network as the cost of the employees who work in the retail network, and the cost of the buildings that form the brick and mortar of the retail network. It is my understanding that Postmasters, CAG K clerks, and Clerks who are tallied by the IOCS as working window service all work in the retail network. Concerning Rents, it seemed logical to me that the costs associated with renting a building would be connected to the cost of running a retail network. Unfortunately, the total rent of buildings (or portions of buildings) that **exclusively** function as postal retail facilities is not provided by the CSC.

b) <http://www.thefreedictionary.com/related+to> defines “related to” as “being connected either logically or causally or by shared characteristics.” I believe the costs of employing people to work in a facility and the cost of providing the facility to be connected logically to

the cost of running that facility. In this case, in the aggregate this would be the cost of operating the entire retail network.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO INTERROGATORY OF THE PUBLIC REPRESENTATIVE**

USPS/PR-T2-23. (Looking at section IV(b) of your testimony,) Is it your understanding that the Postal Services identified offices included in RAOI, in part, based upon their overall costs of operation or their costs to operate retail operations? Please explain your response and cite to any source materials upon which you rely.

Response. It is my understanding that cost was not considered. On transcript vol. 1 at page 531-532, Postal Service witness Boldt states "Remember we selected it based on workload, based on walk-in-revenue, not necessarily operating costs." He further states on page 532 "we didn't look at costs."

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO INTERROGATORY OF THE PUBLIC REPRESENTATIVE**

USPS/PR-T2-24. What is your understanding of the relationship between “Walk in Revenue” as used in Table 2 of your testimony as compared with how it was used as a selection criterion by witness Boldt?

Response. The walk in revenue used in table 2 of my testimony is derived from a file that contains the walk in revenue of facilities that were selected based on walk in revenue, USPS-LR-NP-5.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO INTERROGATORY OF THE PUBLIC REPRESENTATIVE**

USPS/PR-T2-25. Table 3 in your testimony identifies 40 offices with BMEU operations; please explain how you identified those offices, including the specific criteria you understand signify the existence of a BMEU.

Response. One of the columns in USPS-LR-NP6 has a column heading “BMEU ind.” According to the word file “FDB column Descriptions” the “BMEU ind.” column means “bmeu_ind: Is this a BMEU Facility? (Y or N).” I used the “IF” excel function to evaluate (Y or N) as 1 or 0, and linked the RAOI facility I.D. contained in Postal Service library references with USPS-NP6 to calculate which RAOI facilities were identified as BMEUs. The calculations used to determine what RAOI facilities were identified as BMEUs are shown in the library reference PR-LR-NP2.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO INTERROGATORY OF THE PUBLIC REPRESENTATIVE**

USPS/PR-T2-26. On page 8 you observe, “99% [of “Low Workload” offices] are staffed by only one employee. This means that Postal Service management does not have the flexibility to use fewer employees to better match employee workhours to earned workload.” Given that employees are unitary (one must use an entire person if she is used at all), please explain the point you are trying to make.

- a. What management flexibility might change this?
- b. What flexibility do you understand management has over workhours in a given facility?

Response. The point that I was trying to make is that Postal Service management does not have the flexibility to match workload to workhours in facilities with only one employee. This is in contrast with the findings of the USPS IG report “MS-AR-10-004,” which discussed and described how the Postal Service could save up to \$600 million per year by matching employee workhours to earned workload at facilities with multiple retail employees. If only one person is working at a given retail facility, the only method the Postal Service has to better match workhours to earned workload is to close the facility, which also does not precisely match earned workload to workhours.

- a)** The ability to have persons work partial workdays, possibly at multiple facilities.
- b)** It is my understanding that at facilities with multiple employees, management has some scheduling and hiring flexibility to match workhours with earned workload.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO INTERROGATORY OF THE PUBLIC REPRESENTATIVE**

USPS/PR-T2-27. Certain headings in section V of your testimony use language for which the meaning is not clear. What do you mean in the major heading that the “Low Workload” Selection Criteria **Identifies to** Rural Office that Operate at a Deficit” [emphasis added]? Is this a term of art for which you can provide a citation?

- a. What is the definition of “Rural Office” that you use? How was it developed? Can you cite to its source?
- b. Does “Identifies to” connote or denote anything other than a statistical relationship? If so, what is that? If it does at least imply a statistical relationship, what is it? Is it statistically significant? Please provide these details.
- c. On page 11, subheading c., what is meant by “Low-Workload **Means** that the Nearest Post Office is a Driving Distance of 10.3 Miles away” [punctuation/capitalization in original, emphasis added]? Since this heading seems to apply to a quite nonstandard definition for “Low Workload” please explain what you mean and provide a source for your use of this term, if you can. Please answer questions identified in part (b) also for the meaning of this heading.

Response. The revised version of PR-T2 reads “The “Low-Workload” Selection Criteria Identifies Rural Offices that Operate at a Deficit.” I apologize for the unfortunate typo.

a) see response to USPS/PR-T2-7. I define offices that serve rural populations as rural offices.

b) “Identifies to” is a typo. The relationship between rural populations and the nearest post office is not a sampled relationship, it is a relationship defined using census data. As such, there is no test for statistical significance, which is to relate the sample size with conclusory accuracy or relevance.

c) According to <http://dictionary.reference.com/browse/mean>, the word mean can be defined as “to intend for a particular purpose” or “to bring, cause, or produce as a result” The “low workload” selection criteria produces as a result of the selection criteria offices that are a driving distance of 10.3 miles from the nearest Post Office. Thus, “Low-Workload **Means** that the Nearest Post Office is a Driving Distance of 10.3 Miles away.”

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO INTERROGATORY OF THE PUBLIC REPRESENTATIVE**

USPS/PR-T2-28. Please refer to USPS Handbook PO-101 (USPS-Library Reference N2011-1/1).

- a. Would you agree that it specifies Post Office discontinuance procedures?
- b. Is it your understanding that this docket serves the purpose of evaluating “Post Office closing procedures”? Please explain your response.
- c. Does your use of the language quoted in part (b) from your footnote 12 indicate your expectation that the Postal Service has some obligation, or intention, of asking the Commission sometime in the future to evaluate “Post Office closing procedures”?
- d Please explain your use of those words in footnote 12.

Response.

- a) I agree.
- b) It is my understanding that the PO-101 rules are promulgated by the Postal Service in 39 C.F.R. Part 241.
- c) Footnote 12 has been revised to read “Due to time limitations, the straight line distance was calculated. ArcGIS software is capable of calculating driving distances, and this calculation would allow for a more detailed and accurate analysis of actual distance to a Post Office. When evaluating Post Office closings, analysis of driving distance proximity would be more informative, given fewer time constraints.” I apologize for the unfortunate oversight. That footnote was not a comment on PO-101 discontinuance procedures, especially given that PO-101 requires actual driving distances to be calculated.
- d) When providing top-down guidance concerning proposed post office closings in the future, as the Postal Service has publicly stated it intends to do (see interview with the Deputy PMG at <http://www.myprintresource.com/video/10347781/kelley-holmes-interviews-deputy-postmaster-general-ron-stroman> mark 2:00), it may be helpful to analyze driving distance to nearby post offices at the headquarters level.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO INTERROGATORY OF THE PUBLIC REPRESENTATIVE**

USPS/PR-T2-29. Please document the analyses you report in the paragraph at the top of page 13, as required by Rule 31(k). Please include confidence intervals as well.

Response. The top of page 13 of PR-T2 reads “Currently, 93.8% of the 311 million people living in the United State reside within 5 miles of a Post Office. There are 2.5 million people, or .8% of the population, more than 10 miles from a post office. If the RAOI offices are closed, the average person will be 3% further away from a post office. As the next sections describe, focusing on the customers currently served by RAOI offices provides a better understanding of the impact of the proposal.” That information is calculated using Table 6..

<u>Table 6: Straight-Line Distance From Census Block Center to Post Office</u>				
<u>Total United States Population</u>				
	Before RAOI		After RAOI	
Distance (Miles)	Population	Percent of Population	Population	Percent of Population
More than 20 Miles	252,088	0.08%	314,398	0.10%
Between 15 and 20	415,466	0.13%	460,524	0.15%
Between 10 and 15	1,536,653	0.49%	1,787,840	0.57%
Between 5 and 10	17,098,606	5.49%	18,026,707	5.79%
Between 4 and 5	13,817,934	4.44%	14,211,258	4.57%
Between 3 and 4	26,002,103	8.36%	26,499,064	8.51%
Between 2 and 3	51,288,326	16.48%	52,779,998	16.96%
Between 1 and 2	99,242,719	31.89%	100,168,932	32.19%
Less than 1 Mile	101,558,963	32.63%	96,964,137	31.16%
Total Population	311,212,858		311,212,858	
Average Distance (Miles)		2.00		2.06
Increase in Average Distance				3.08%

In the “Before RAOI” column, The rows “Between 10 and 15,” “Between 15 and 20” and “More than 20 miles” have “Population” values of 1.53 million, .41 million, and .25 million. That adds to 2.2 million people, or .7% of the total US 2010 population. I apologize for unfortunately citing the wrong column. The 2.5 million people farther than 10 miles from a

Post Office was erroneously calculated using the “After RAOI” numbers, which are 1.8 million, .46 million, and .31 million; if all RAOI offices are closed, 2.561 million people, or .82% of the US population, will be farther than 10 miles from a Post Office. All information referred to in my testimony was included in PR-LR-NP2, pursuant to Commission rule 31(k).

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO INTERROGATORY OF THE PUBLIC REPRESENTATIVE**

USPS/PR-T2-30. Does any of the analysis you performed in connection with your testimony (regardless of whether it actually appears in your testimony) attempt any evaluation of what the Postal Service terms “alternate access” points for retail service, whether they include contract postal units, consignees, Approved Shippers, non-personnel units, rural/HCR carrier delivery, Office Depot, phone/fax/mail, etc.? Why or why not? What, if anything, did your analysis show?

Response. Unfortunately, the Postal Service has not provided any information regarding “alternate access” points in this docket. As such, my analysis does not include information regarding “alternate access.”

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO INTERROGATORY OF THE PUBLIC REPRESENTATIVE**

USPS/PR2-31. In section VI(c) of your testimony you include some comparisons involving other countries. In your understanding, how meaningful is a comparison of the Postal Service domestic service area, and attributes thereof, to those of Canada, France and Australia in a general sense?

- a. Please provide copies of any published or publicly circulated papers that you have used to compare the provision of postal services in the United States with the provision of postal services in those and other countries.
- b. How are the countries comparable in terms of geography?
- c. How are the countries comparable in terms of services provided by the country's post?
- d. How are the countries comparable in terms of population density?
- e. How are the countries comparable in terms of number and types of postal access points?
- f. How are the countries comparable in terms of availability and use of alternate types of access (other than traditional brick/mortar facilities operated by employees of the post)?
- g. How are the countries comparable in terms of postage for the equivalent of a First-Class Mail single ounce letter or the closest international cognate?

Response. In a general sense, I understand that all three countries serve both urban and rural populations. Using information from the website "Postal Freedom Index," found at http://www.postalconsumers.org/postal_freedom_index/indexofpostalfreedom.shtml, and the La Poste 2010 annual report <http://www.laposte.com/Everything-about-La-Poste/Who-we-are/Facts-and-figures> and the Australian Post website <http://auspost.com.au/about-us/fast-facts.html>, I have developed the following table with information responsive to this question. I used <https://www.cia.gov/library/publications/the-world-factbook/index.html> to calculate population density.

	Number of Post Offices	Letter Monopoly	Inhabitants/ SQKM	Alternate Access?	First Class Stamp
France	10,213	Open Market	101.4	6866 sites	.60 euro (up to 20 g)
Australia	1,466	less than 250 grams	2.8	2934 sites	.60 Australian Dollars
Canada	6,500	less than 500 grams	3.4	YES (42%)	.57 Canadian Dollars

a) My analysis did not require me to compare the provision of postal services in the France, Australia, and Canada to the United States. My analysis was restricted to legal requirements regarding postal retail facility proximity.

b) I am not an expert in geography. I do not understand the intent of the question, as any two countries geography can be compared, and thus all countries have comparable geography.

c) All posts provide postal services, ranging from letters to parcels. Most countries offer banking or online services, with the exception of the United States Postal Service.

d) France has a higher population density than the U.S.(31.9 inhabitants per sq km), Canada and Australia have lower population densities than the U.S. However, all four countries have pockets of rural populations requiring access to postal services. Australia and Canada have relatively more of these rural pockets.

e) The following table shows the number of postal retail outlets per person in the four countries

	Postal Retail Locations Per Person
US	0.000115
France	0.000261
Australia	0.000202
Canada	0.000191

f) All four countries offer alternate access sites. Of these countries, Australia, with its franchise model (whereby the postal operator subsidizes and franchises the provision of retail services for rural areas), has the highest percentage of alternate access sites.

g) The United States has the lowest First Class postage price.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO INTERROGATORY OF THE PUBLIC REPRESENTATIVE**

USPS/PR-T2-32. Please confirm that you provide in your testimony certain analyses that focus on the distance of, apparently, residences from traditional brick/mortar postal facilities operated by postal employees.

- a. Of what significance are the results you report?
- b. Of what significance are the change in results assuming all RAOI nominated offices are formally discontinued?
- c. Of what significance would your results be if you were able to predict or know precisely which facilities are formally discontinued.
- d. Please add any commentary you think would be useful.

Response. Confirmed

a) If the question refers to statistical significance, the analysis of proximity of Post Offices to census blocks relies on census data and does not require an analysis of statistical significance. If the question uses the word significance to mean importance, that is for others to decide.

b) If the question refers to statistical significance, the analysis of proximity of Post Offices to census blocks relies on census data and does not require an analysis of statistical significance. If the question uses the word significance to mean importance, that is for others to decide. The analysis contained in Table 8 of PR-T2 shows that over 1 million more people in the U.S. will live farther than 5 miles from a Post Office if all RAOI “low workload” offices are closed.

c) If the question refers to statistical significance, the analysis of proximity of Post Offices to census blocks relies on census data and does not require an analysis of statistical significance. If the question uses the word significance to mean importance, that is for others to decide. The analysis contained in Table 8 of PR-T2 shows that over 1 million more people in the U.S. will live farther than 5 miles from a Post Office if all RAOI “low workload” offices are closed. If a precise list of offices that will be closed pursuant to the RAOI proposal was available, the analysis would provide more precise information regarding the impact of the proposal.

d) This analysis provides a method to determine how many people will be affected by the closure of the Post Office nearest their residence (and potentially demographic information about those people). This relies on more robust data than the PO-101 procedures, which measures persons who attend a discontinuance meeting as a proxy for patrons of a particular Post Office.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO INTERROGATORY OF THE PUBLIC REPRESENTATIVE**

USPS/PR-T2-33. Near the bottom of page 17, you claim that 16.2 million “citizens” would be impacted by discontinuance of RAOI offices. How do you know how many are citizens?

a. How can you conclude that all such customers use only the one office you assume they use? Can you provide any empirical support for this apparent assumption?

b. What other forms of retail access could they be making use of prior to discontinuance? How can you tell?

c. What other forms of retail access could they be making use of after any discontinuance? How can you tell?

d. Does your estimate of \$232 million cost to society also depend upon the assumption that 16.2 million people use only the one facility you assume they use? If not, please explain completely.

e. What is the empirical basis for asserting each of those 16.2 million erstwhile customers makes one trip per week to a Post Office? On what basis do you assert that no such trips, on whatever frequency, could possibly be joined with trips for other purposes? Do any of the 16.2 million have jobs or go to school?

f. Based on the various estimates of the Walk-In Revenue generated at each of those offices, what is the average revenue achieved by the more than 842+ million trips to a classified postal facility generate?

Response. The question is correct; the testimony should read “persons,” not “citizens.” The census does not record citizenship information

a) The Postal Service has not provided any information in this docket detailing who uses Post Offices or where they reside in relation to the location of a given retail facility. I assume that the closure of a Post Office will impact nearby residents.

b) The Postal Service has not provided any information in this docket detailing who uses other forms of retail access as it relates to their location.

c) The Postal Service has not provided any information in this docket detailing who will use other forms of retail access as it relates to the closing of the location currently nearest their residence (or any other convenient location).

d) The hypothetical on page 17 of PR-T2 assumes that each person takes 1 trip to the location that is currently nearest their residence, and the Postal Service closed all RAOI offices, society would spend \$232 million more on gas than if they Postal Service did not close any offices. This means that the hypothetical rests on 3 assumptions: people travel once a week to the post office, people only use the Post Office nearest their residence, and that people travel in straight lines to the Post Office (ignoring roads or any other obstacles). This is a hypothetical, and all three assumptions have flaws. It was meant to illustrate the potential importance of a societal evaluation of the germane proposal.

e) The only empirical information relied upon in the hypothetical is the straight line distance from the population residence to the nearest Post Office.

f) I do not have information regarding the average revenue per trip to a postal facility. Given that the Walk-In Revenue of the “Low workload” offices was roughly \$42 million in FY10, I would posit that it does not appear that there were 842 million revenue-generating trips to “low workload” offices in FY10. However, trips to the Post Office are not always revenue-generating.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO INTERROGATORY OF THE PUBLIC REPRESENTATIVE**

USPS/PR-T2-34. Please refer to the discussion on page 17 of your testimony in which you pose the question of whether the Postal Service can “spend less on its retail network and achieve a Pareto optimal result.”

a. Please confirm that you do not define a “Pareto optimal result” in your testimony. If you do not confirm, please cite where in your testimony such a definition is provided.

b. Please refer to discussion at Tr. 8/1763-64 (Feb. 7, 2003) in the Cap One NSA case (PRC Docket No. MC2002-2) between OCA counsel Costich and Prof. John Panzar. Do you agree with the consensus they reached that a state of the world is Pareto optimal if it is not possible to make anyone better off without making someone else worse off, and that a Pareto improvement occurs when one makes someone better off without making anyone else worse off? If not, please explain.

c. On page 17, you claim that “[i]f the Postal Service closes the RAOI offices, upwards of 16 million Americans will have less postal access, which is not a pareto optimal result.” Please confirm that it is your testimony that, because of having less postal access, those 16 million Americans would be worse off going from the status quo to a situation in which the RAOI offices were all closed. If not confirmed, please explain.

d. Please confirm that, assuming *arguendo* that a number of Americans would be worse off (in terms of postal access) going from the status quo to the closure of all of the RAOI offices, this merely indicates that such a change would not be a Pareto improvement. If not confirmed, please explain.

e. Please confirm that the mere fact that some persons are harmed going from an old status quo to a new status quo does not exclude the possibility that it is impossible to make anyone better off moving from the new status quo without making some else worse off (i.e., does not exclude the possibility that the new status quo is Pareto optimal). If not confirmed, please explain.

f. Please explain fully the basis for your claim on page 17 of your testimony that the closure of the RAIO office “is not a pareto optimal result.”

- g. Please confirm that, with reference to your statement on page 17 that the Postal Service “certainly needs to reduce costs where possible” that as a practical matter it is virtually impossible to “reduce costs” without making *someone* worse off (e.g., postal employees, contractors, customers, competitors, etc.). If not confirmed, please explain.
- h. Do you agree with the statement by Prof. Panzar on page 1764 of the Cap One NSA transcript that “the opportunities to make Pareto improvements in the policy arena are rather limited, say nonexistent”? If not, please explain.
- i. Do you agree that a reasonable extension of the above-quoted remark by Prof. Panzar on page 1764 of the Cap One NSA transcript would lead to a similar conclusion that the opportunities to apply the concept of Pareto optimality in the policy arena are likewise either limited or nonexistent? If not, please explain.

Response. Unfortunately, my testimony as originally filed contained a typo. The relevant phrase has been revised to read “Pareto dominant.” I will respond to the questions with the revised phrase replacing the original.

a) I do not define Pareto dominant result. A primer on Pareto efficiency can be found at http://en.wikipedia.org/wiki/Pareto_efficiency. Pareto dominant solutions are possible results of an optimization problem. Pareto dominant solutions are the solutions that maximize the net benefit to society. In a given set of Pareto dominant solutions, certain groups can achieve greater or lesser valuable results, but the change in impact for all groups is null, and each group can be compensated. If a Pareto dominant result is not chosen, solutions inside the Pareto dominance boundary will result in some members of the problem being worse off, and society unable to compensate the loss of benefit with an efficiency gain in other portions of the optimization problem. The key idea to Pareto dominance concerns the impact of a change. If a change decreases the net benefit to society, some members of society will be worse off and society will not have efficiency gains with which to compensate the negatively affected members.

b) I agree.

c) Confirmed

d) Confirmed, but it should be noted that the key to Pareto improvement is the overall effect to society. The Postal Service has not clearly defined the benefit to the Postal Service of

closing the RAOI offices. If the benefit of closing the RAOI offices to the Postal Service is greater than the negative effect of closing the RAOI offices for the impacted population, then overall the RAOI is a Pareto improvement. The Postal Service has not provided information or clearly defined an argument that shows that RAOI is a Pareto improvement.

e) Confirmed

f) At this juncture, the Postal Service has not defined any benefit to it, or society of closing the RAOI offices. In response to interrogatory DBP/USPS-18, the Postal Service stated such information would not be available until October 2011. The Postal Service has made statements regarding a projection of \$200 million in operational savings, but in this docket the Postal Service has clearly stated such savings are a hypothetical. Without a positive savings number with which to compare, all I have to evaluate is the negative impact of the reduction in retail access. As such, even if the negative impact is only 1 dollar (it is likely more than that), at the moment the proposal does not appear to be a Pareto improvement.

g) I confirm that it is hard to reduce costs without making some people worse off. Unless, of course, significant excess capacity or inefficiency exists.

h) I do not disagree with Professor Panzar's statement.

i) If attempts at optimization are successful, applying the concept of Pareto optimality gauge is an important endeavor. The Postal Service offers a monopoly product, and serves all segment of society, including segments of the population that are disadvantaged. When the Postal Service wants to reduce the services it offers or reduce how it offers those services it is important to measure whether the benefit to society of the change is greater than the cost to society of the reduction. Pareto optimization measurement provide insights as to whether a change is an optimization or detraction.